

COVID-19: Economic Implications and Policy Response

Nov 5, 2020
 S. Denver Kiwanis Club
Geoffrey Woglom
 Professor of Economics (Emeritus)
 Amherst College



NATIONAL ECONOMIC
 EDUCATION DELEGATION

1

1

Who Are We?

- **Honorary Board: 47 members**

- 2 Fed Chairs: Janet Yellen, Ben Bernanke
- 6 Chairs Council of Economic Advisers
 - o Furman (D), Rosen (R), Bernanke (R), Yellen (D), Tyson (D), Goolsbee (D)
- 3 Nobel Prize Winners
 - o Akerlof, Smith, Maskin

- **Delegates: 500+ members**

- At all levels of academia and some in government service
- All have a Ph.D. in economics
- Crowdsource slide decks
- Give presentations

- **Global Partners: 45 Ph.D. Economists**

- Aid in slide deck development



NATIONAL ECONOMIC
 EDUCATION DELEGATION

2

2

Available NEED Topics Include:

- US Economy
- Climate Change
- Economic Inequality
- Economic Mobility
- US Social Policy
- Trade and Globalization
- Trade Wars
- Immigration Economics
- Housing Policy
- Federal Budgets
- Federal Debt
- 2017 Tax Law
- Autonomous Vehicles



3

Credits and Disclaimer

- **This slide deck was authored by:**
 - Jon D. Haveman, NEED
 - Geoffrey Woglom, Amherst College (emeritus)
- **This slide deck was reviewed by:**
 - Jon Haveman
- **Disclaimer**
 - NEED presentations are designed to be nonpartisan.
 - It is, however, inevitable that the presenter will be asked for and will provide their own views.
 - Such views are those of the presenter and not necessarily those of the National Economic Education Delegation (NEED).



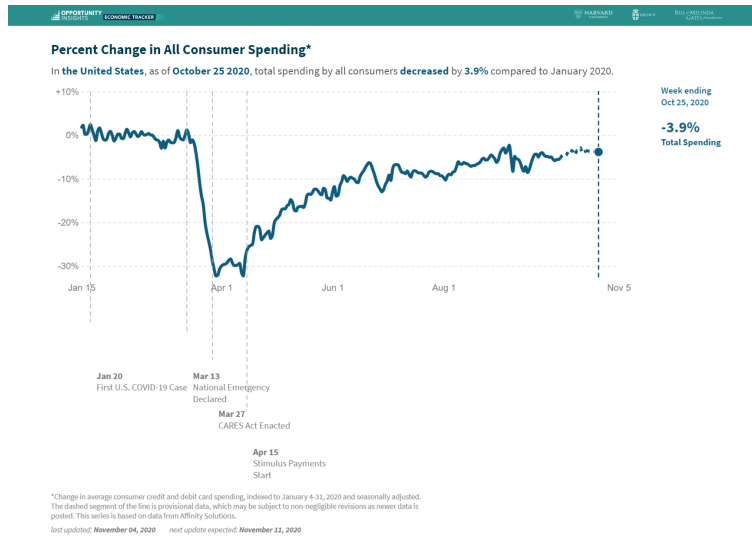
4

Outline

- Where is the Recovery Now: “V” or “K”?
- What have been the effects of policy?
- What are the risks to a continued recovery?

5

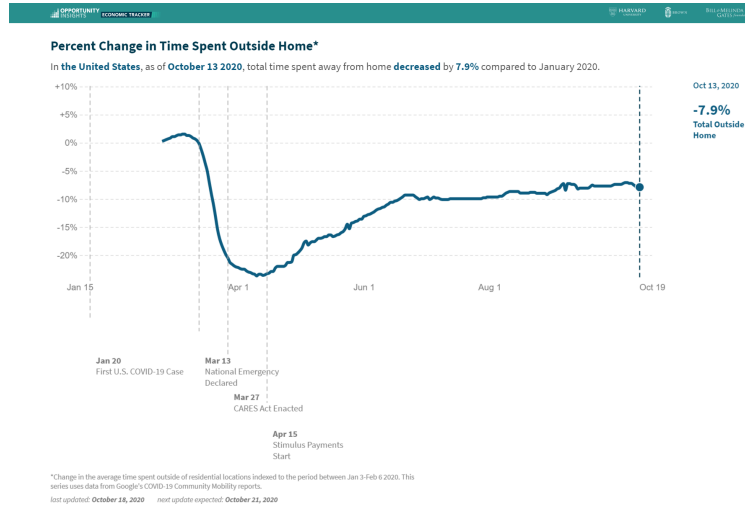
Spending Collapsed in March



6

Why Did Spending Collapse?

At least initially, the spending collapse was due to public health restrictions and nervous households. Over time, loss of income also plays a role



7

Is the GDP Glass Half Full, or Empty?

Headlines on 10/29

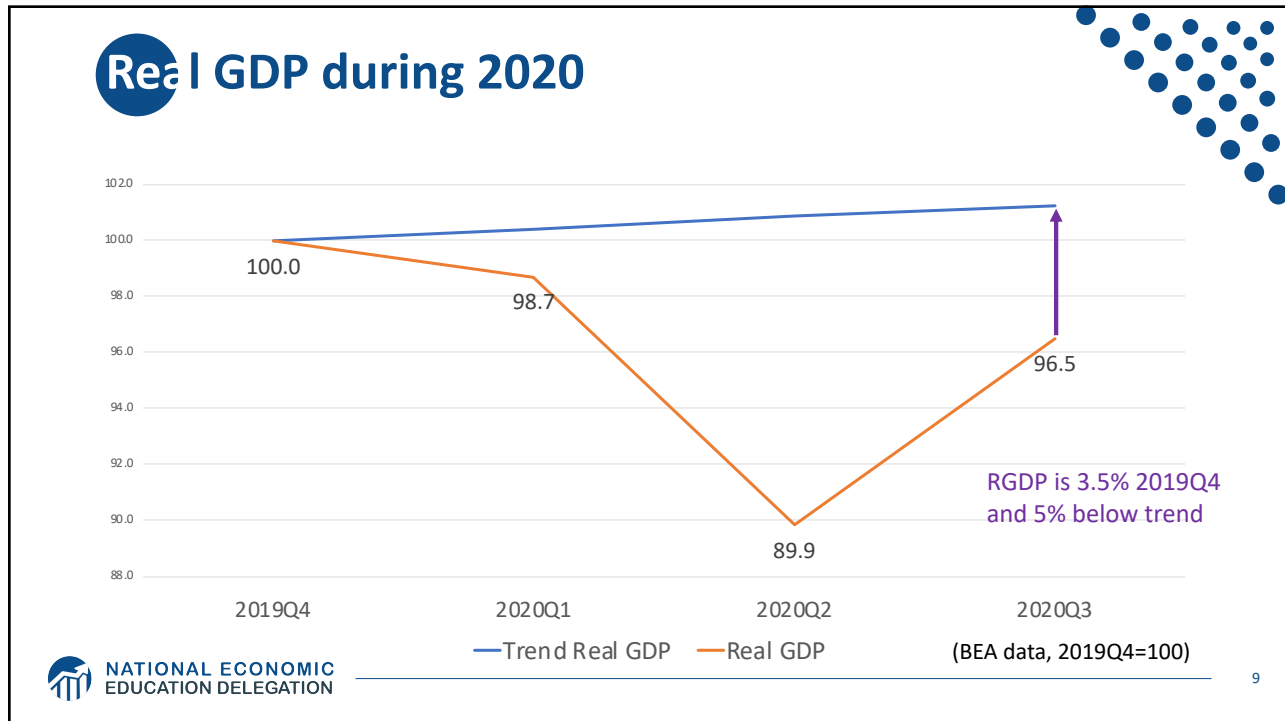
- GDP roared back at record 33.1 percent in third quarter, *Washington Times*.
- Economy's Big Rebound Leaves a Shortfall as Progress Slows, *NYTimes*.

Keys to Understanding:

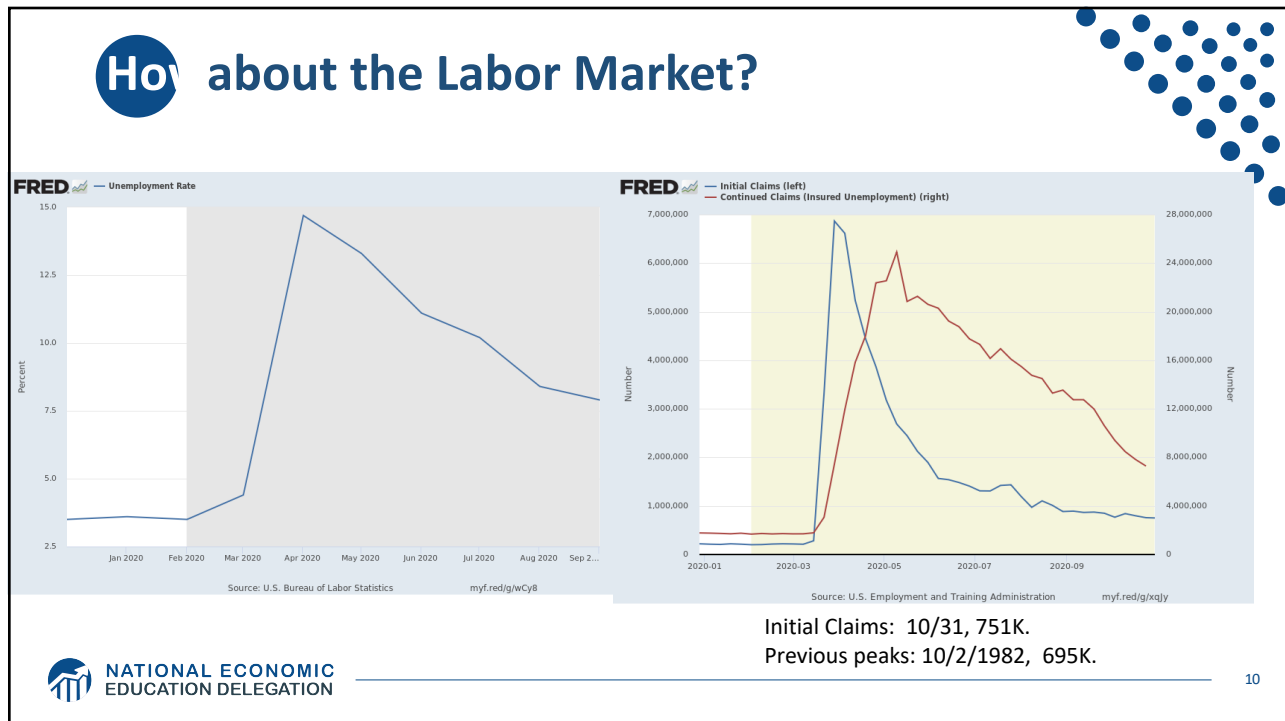
1. 33.1% is at an annual rate (which makes sense in normal times).
2. Growth in the second quarter was -31%, also a record.

Bottom line: the economy has made up a lot of ground very quickly, but we still have a ways to go: 5% gap is \$1 trillion in lost output

8



9



10

Aggregate Data Looks Encouraging

- Recovery has been unexpectedly rapid, albeit incomplete.
- Why: There were no **short-run** macro problems at the start of the crisis.
- The only obstacle to a continued recovery:
 1. Resurgence of the virus.
 2. Economic disruptions due to prolonged job losses and business failures

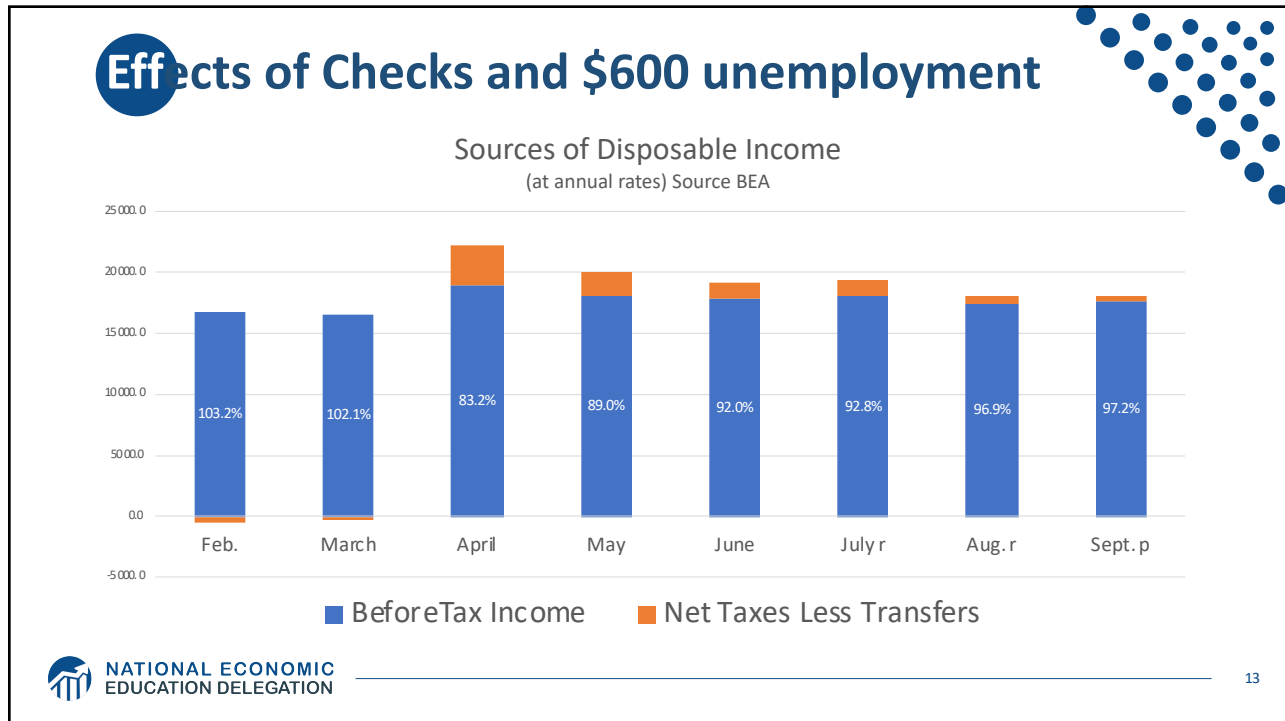
11

What Have Been Policy Effects

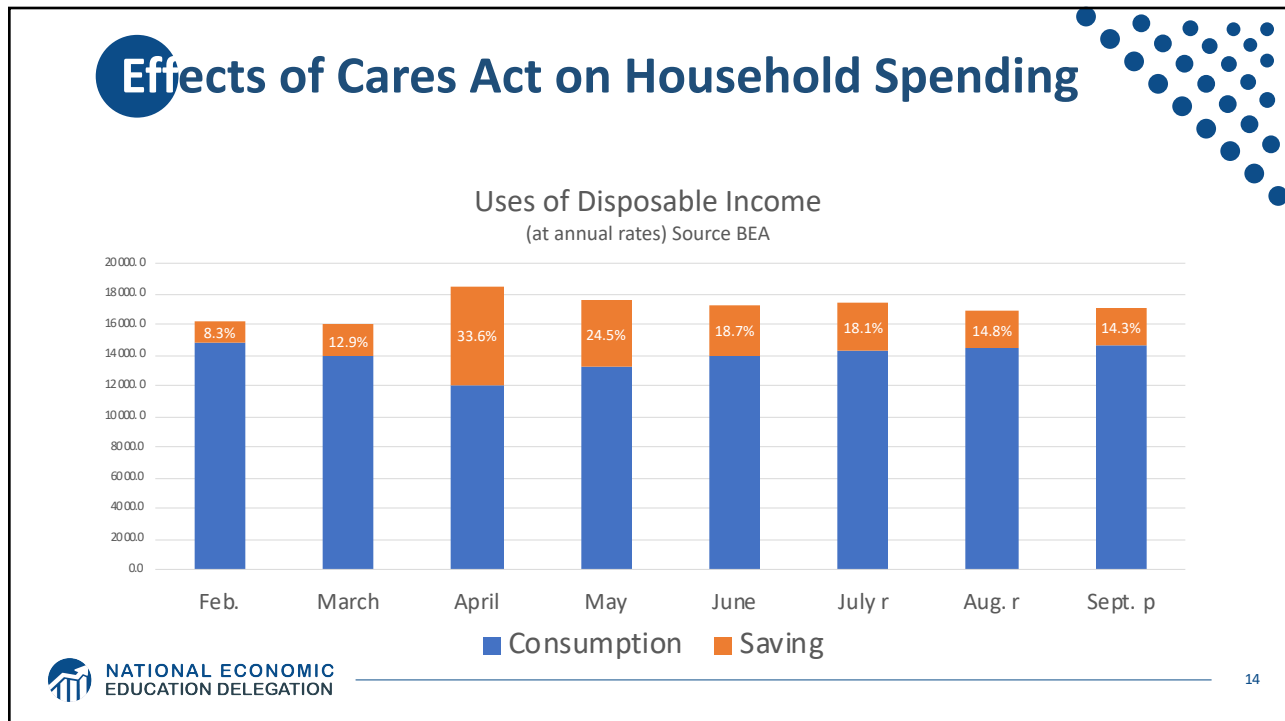
- Monetary Policy acted quickly and effectively to prevent a financial market meltdown and to keep credit flowing. But the Fed lends and does not spend.
- Fiscal policy acted quickly, but inevitably made some mistakes.
 - Stimulus Checks, A (\$268b)
 - Expanded Unemployment, B- (\$268b)
 - Paycheck Protection Program, C (\$525b)

Big Caveat: Much of the Fiscal Stimulus ended in July

12



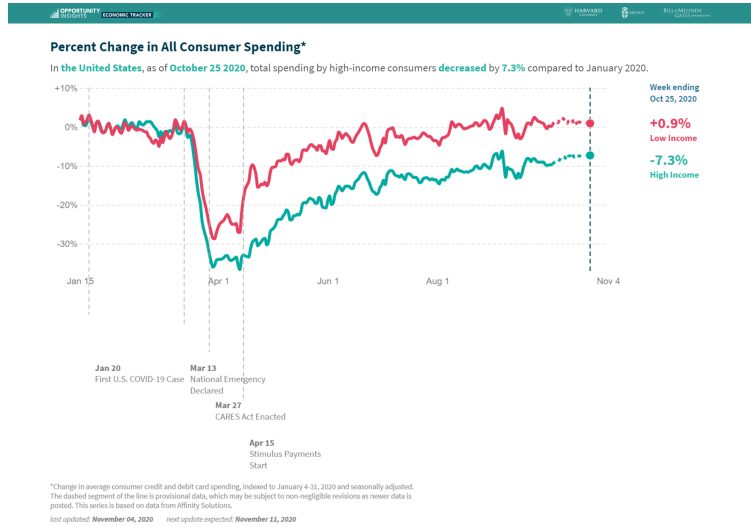
13



14

Yes but was it the Checks and \$600?

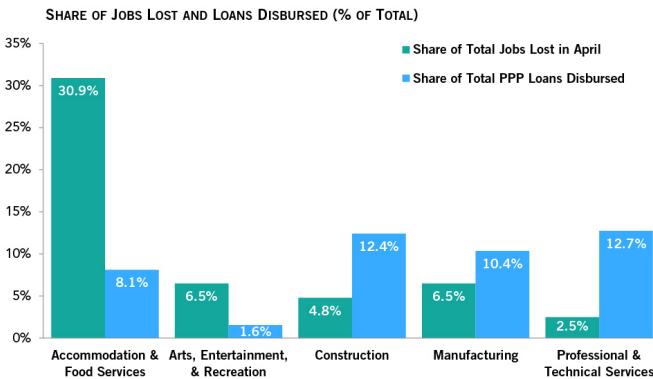
The Treasure Trove of “Real Time Data”
 Low Income Households Spending was initially Income Constrained



15

PPP, Not so Good: Didn't Go to the Right Firms

PETER G. PETERSON FOUNDATION The distribution of PPP loans has not matched levels of unemployment

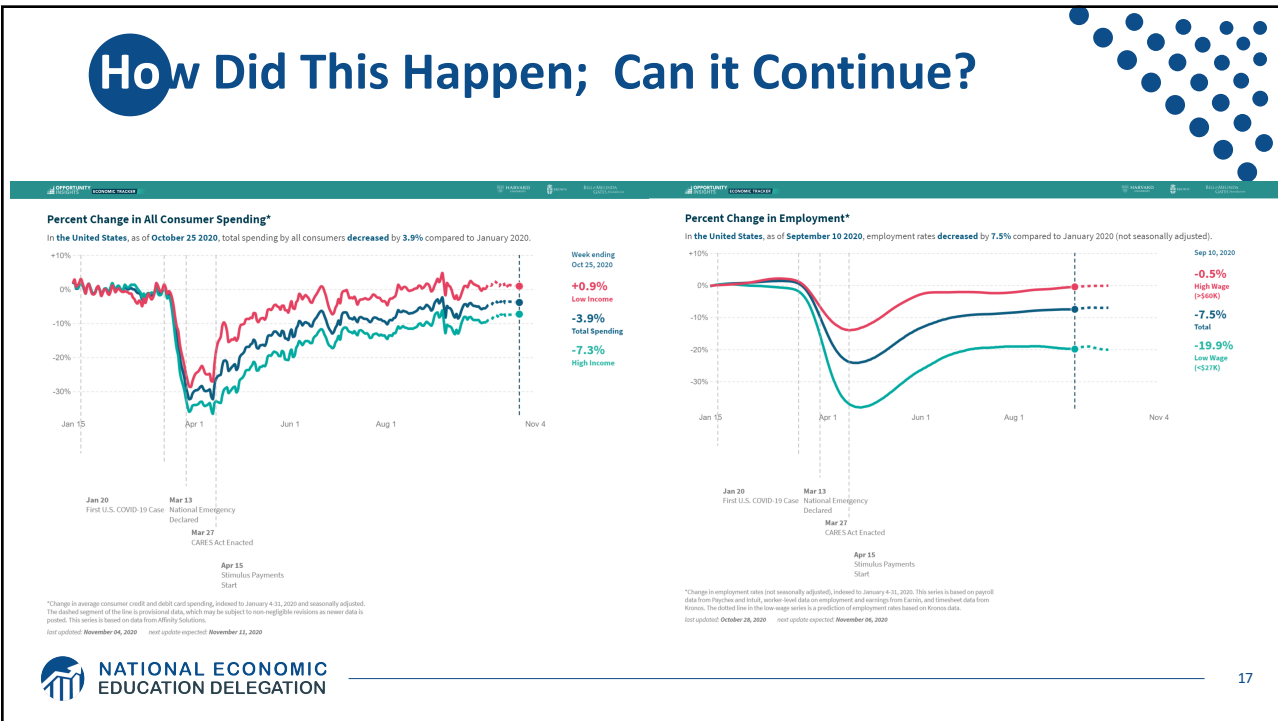


In addition, first round loans went disproportionately to predominantly white Congressional Districts
 Bloomberg, 7/30

SOURCES: U.S. Small Business Services Administration, Paycheck Protection Program (PPP) Report, Approvals through 07/24/20, July 2020; and S&P Global Ratings, Economic Research: The Paycheck Protection Program Impact on Jobs: (More) Help Wanted, May 2020.
 © 2020 Peter G. Peterson Foundation PGPFF.ORG

16

How Did This Happen; Can it Continue?



17

Cares Act Supported Spending of Low Income

- **But, as of August 8, no more**
 - PPP loans
 - Extra \$600 weekly benefit and
 - many, many workers have exhausted benefits.
- **Net Effect on Household Income of taxes and government aid:**
- **February, -3%; April, +20%; but declining steadily to Sept. +2.9%**
- **How do low-income households continue to spend, and consumption is 2/3rds of GDP.**

18

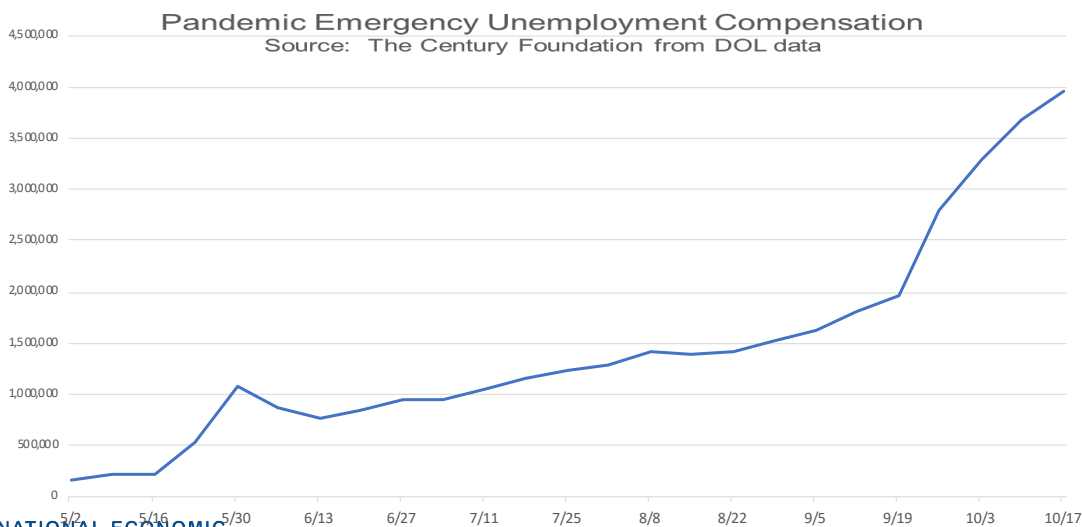
Is it a V or a K shaped recovery?

1. **Aggregate Data look good because of the Cares Act (at least until the end of July) supported lowincome workers.**
2. **But, it doesn't look good everywhere. Bottom part of K**
 1. Employment of Low-Income workers.
 2. Small firms.
 3. Hard-hit Sectors: Restaurants, entertainment and transportations.
 4. State and Local Governments



19

Evidence of Damage: Workers?

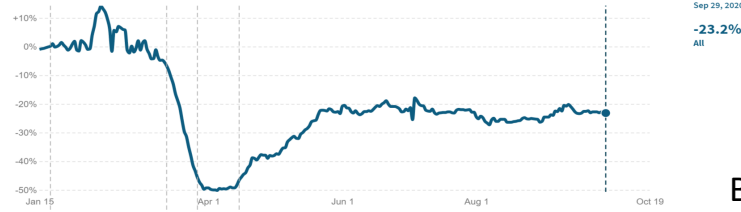


20

Small Firms (over 40% of all jobs)

Percent Change in Small Business Revenue*

In the United States, as of September 29 2020, total small business revenue decreased by 23.2% compared to January 2020.

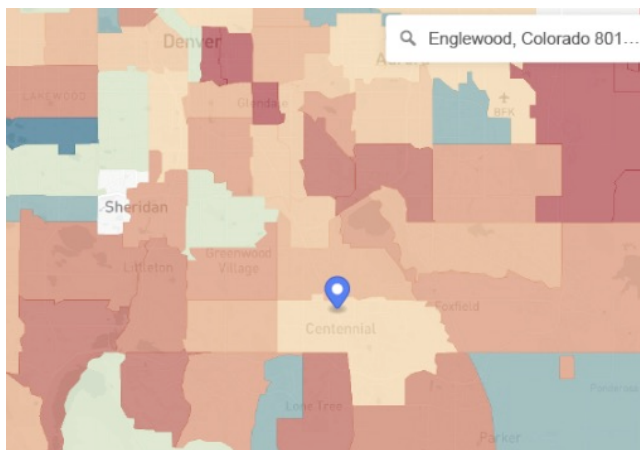


Business Failures?

*Change in net business revenue for small businesses, indexed to January 4-31 2020 and seasonally adjusted. This series is based on data from Womply. Last updated: October 06, 2020. Next update expected: October 23, 2020

21

Real Time Data by Zip Code

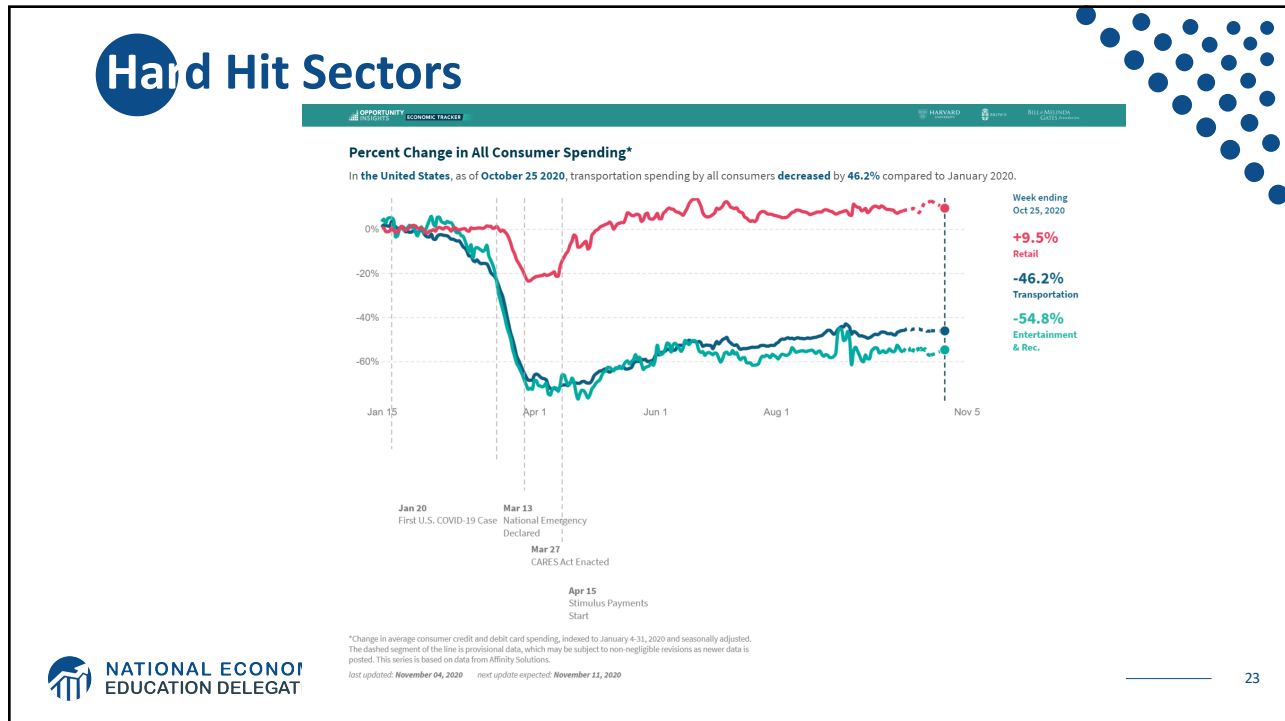


Womply Net Revenue (Seasonal Adj.)

Change Post-COVID

- 49% or lower
- 49% to -37%
- 37% to -29%
- 29% to -22%
- 22% to -15%
- 15% to -8%
- 8% to 0%
- 0% to +11%
- +11% to +31%
- +31% or higher

22



23

Evidence of Damage: Corporate Bankruptcies?

- “More than 30 American companies with liabilities exceeding \$1 billion have already filed for Chapter 11 since the start of January, and that number is likely to top 60 by year-end..., according to Edward Altman, creator of the Z-score and professor emeritus at NYU’s Stern School of Business.” Bloomberg, 7/15
- **Notable Bankruptcies 2020**
 - J.C. Penny, Hertz, Neiman Marcus, Lord and Taylor, Chesapeake Energy, Chuck E. Cheese, Brooks Brothers, Ann Taylor, Lane Bryant, et. al.
- **Many, Many Small firms just close their doors.**

NATIONAL ECONOMIC EDUCATION DELEGATION

24

State and Local Budgets

FIGURE 1

COVID-19 State Budget Shortfalls Could Be Largest on Record

Total state budget shortfall in each fiscal year, in billions of 2020 dollars

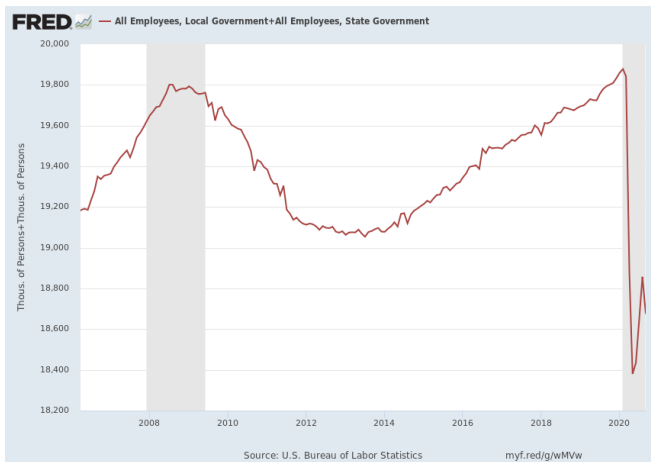


* Estimated based on CBPP calculations
 Source: Pre 2014: CBPP survey; 2020 and following: CBPP calculations

CENTER ON BUDGET AND POLICY PRIORITIES | CBPP.ORG

25

State and Local Employment



Between March and July net loss of 1.1m jobs.

Prospects if there is no general federal aid this year?

26

Stumbling Blocks to Stimulus Package

- General Aid to State and Local Governments.
- Liability Protection for Firms against Covid law suits.
- Can a stimulus bill of more than \$1 trillion pass the Senate?

27

Thank you!

Any Questions?

www.NEEDelegation.org

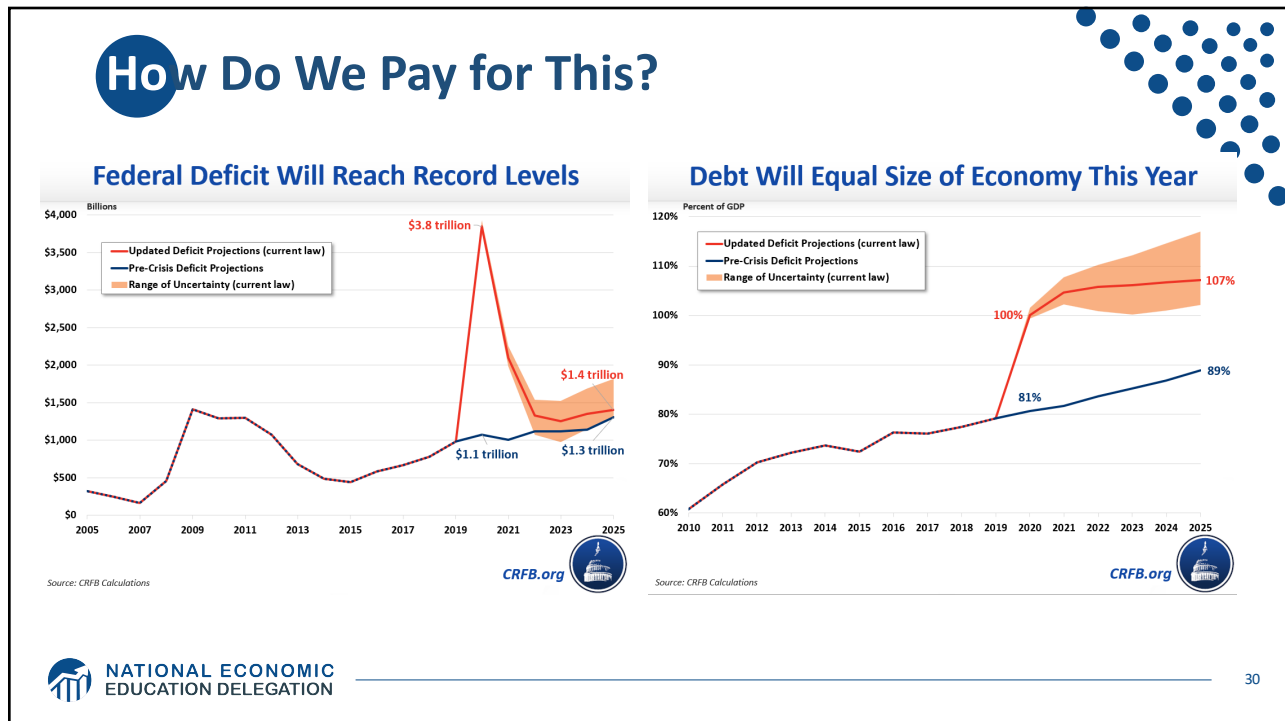
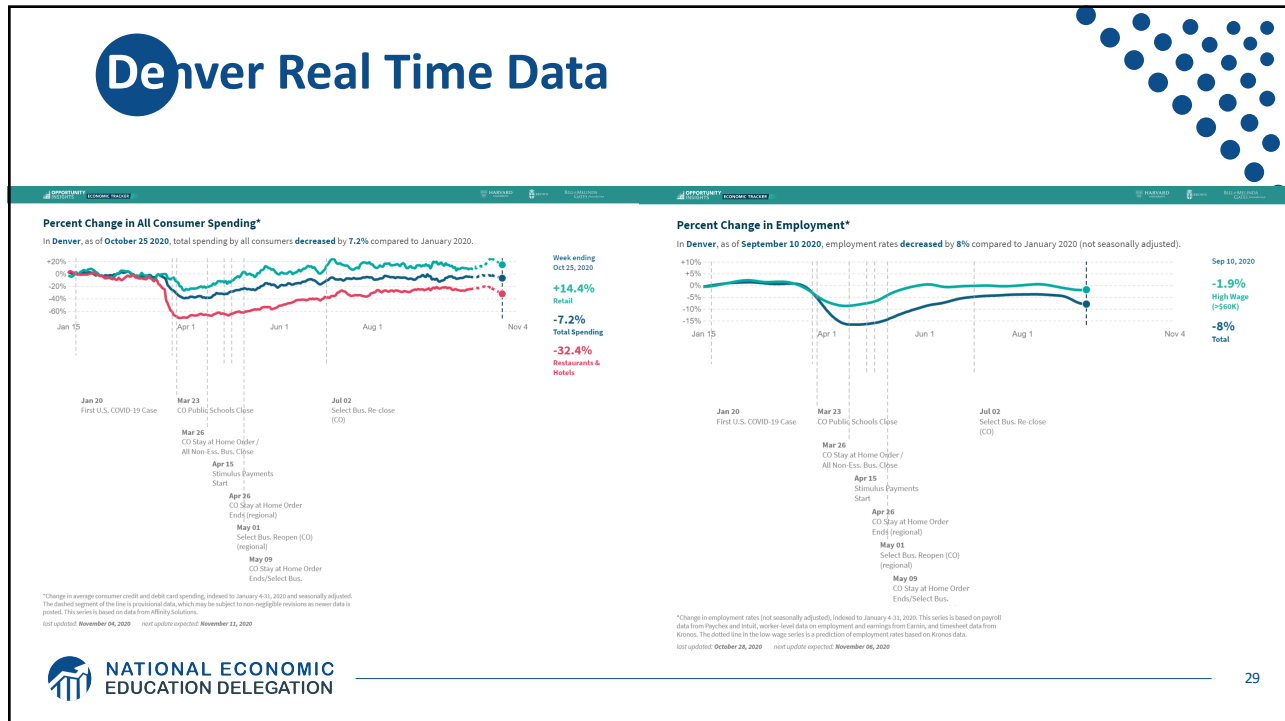
Geoffrey Woglom
grwoglom@amherst.edu

Contact NEED: info@needelegation.org

Submit a testimonial: www.NEEDelegation.org/testimonials.php

Become a Friend of NEED: www.NEEDelegation.org/friend.php

28



From a Republican Deficit Hawk

- “I’m a fiscal hawk from way back, and all of my heebie-jeebies are going off when I see these numbers,” said Douglas Holtz-Eakin, a Republican who used to head the Congressional Budget Office and is president of American Action Forum. “But then I look at the scale of the problem, and I think, yeah, that’s that. Gotta do it.” *Politico*, 4/29

